9 March 1998

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Advanced Radio Telecom Corp.

Moving Up The Value Chain, New Network Initiative Announced

ACCUMULATE

Reason for Report: Company Update, 4Q98 Results

Long Term ACCUMULATE

Price: $13 7/8

Estimates (Dec)	1996A	1997E	1998E
EPS:	d$3.80	d$2.26	d$1.36
P/E:	NM	NM	NM
EPS Change (YoY):		NM	NM
Consensus EPS: (First Call: 19-Feb-98)		d$2.65	d$2.61
Q4 EPS (Dec):	NA	d$0.51	
Cash Flow/Share:	d$4.33	d$2.25	d$1.83
Price/Cash Flow:	NM	NM	NM
Dividend Rate:	Nil	Nil	Nil
Dividend Yield:	Nil	Nil	Nil

Opinion & Financial Data

Investment Opinion:	D-2-2-9
Mkt. Value / Shares Outstanding (mn):	$290 / 20
Book Value/Share (-96):	$4.99
Price/Book Ratio:	2.9x
LT Liability % of Capital:	58.0%

Stock Data

52-Week Range:	$15 1/8-$5 3/4
Symbol / Exchange:	ARTT / OTC
Options:	None
Institutional Ownership-Spectrum:	5.4%
Brokers Covering (First Call):	4

ML Industry Weightings & Ratings**

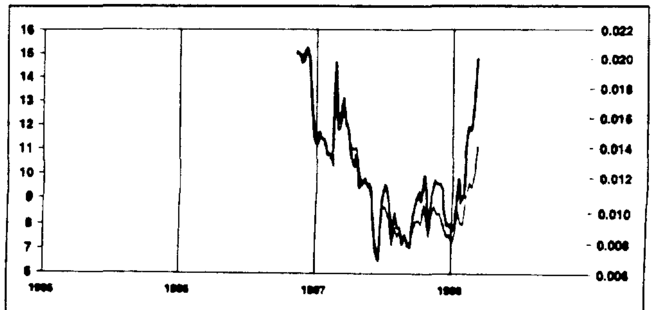
Strategy: Weighting Rel. to Mkt.:		
Income:	Overweight	(07-Mar-95)
Growth:	Underweight	(07-Mar-95)
Income & Growth:	Overweight	(07-Mar-95)
Capital Appreciation:	Overweight	(16-Jan-96)
Market Analysis: Technical Rating:	Above Average	(24-Dec-96)

**The views expressed are those of the macro department and do not necessarily coincide with those of the Fundamental analyst.
For full investment opinion definitions, see footnotes.

Investment Highlights:

- **ART announced a new strategic initiative that that calls for the deployment of a new data network in the top 100 US markets with an initial two markets scheduled for commercial service by end of 2Q98. Service will be supplied via a combination of its 38 GHz wireless local broadband licenses as well as leased local & long haul fiber "backbone".**
- **Strategy shift repositions ART from just a wholesale supplier of local broadband capacity to that of a data network company focused on end-user sales.**
- **ART is also actively pursuing a strategic relationship that will likely provide capital, brand name, access to a data-intensive customer base as well as a direct sales force.**
- **Company reported 4Q97 results that were below our previously published estimates. Sqt'l revenues were flat at $190,000 vs. 3Q (vs. our $300,000 forecast) as the installation of new senior management prompted a major corporate restructuring effort and a halt in wholesale service rollout activities.**
- **No change in our $16 private market value estimate for now as we await details on the new data network initiative.**

Stock Performance



Merrill Lynch & Co.
Global Securities Research & Economics Group
Global Fundamental Equity Research Department

435235/435200/435197/435100/435000

RC#20106814

Advanced Radio Telecom Announces New Strategic Initiative To Become The First Publicly Held Data CLEC:

After the market close on March 4, Advanced Radio Telecom (ART) announced an important new strategic initiative that repositions the company from a wholesale supplier of local broadband capacity to that of a data network company (i.e., a data CLEC), focused on direct end-user sales. Although many of the financial details have yet to be made public, we think that ART's newly installed senior management team led by CEO Henry "Harry" Hirsch and COO William Maxwell is off to a good start in its drive to enhance shareholder value.

New network initiative announced:

ART has announced its intention to begin deployment of wireless broadband metropolitan-area data networks in the top 100 US markets. Service will be provided via a combination of its own 38 GHz local radio licenses (to provide high bandwidth connectivity to end-user locations) as well as leased fiber "backbone" facilities, both for inter-connecting local radio hub/data switch sites and long haul capacity interconnecting the local city networks. Anticipated services that will be offered to business customers include: High speed internet access (IAP) and services (ISP), private data networks (both on a local and national basis), video conferencing and over time, IP telephony and fax services. Sales will likely be accomplished via various channels, including direct and indirect (i.e., sales via other firms), reciprocal resale agreements with other telecom service companies and strategic relationships.

Network rollout plans:

Management plans to have two local networks deployed by the end of 2Q98 — Seattle and Washington, DC. These markets will serve as "prototypes" to prove the concept — both in terms of economics and customer demand (but not the technology which is all commercially available today). Over time, as ART expands its city rollout, the individual city networks will be interconnected via leased long haul facilities to form a high speed national data network.

Looking for a strategic relationship?:

In addition to rolling out its new network, the company according to a press release is also actively pursuing strategic relationships. Management stated the criteria for choosing a relationship could include: capital, access to a national brand, access to a large data-intensive customer base as well as a direct sales force. Possible relationships include all the usual telecom suspects such as CLECs, large long distance companies, new long distance companies building national networks as well as internet service providers, RBOCs and technology companies (i.e., computer equipment, software and/or networking companies).

Impacts of new network initiative

- **Impact on value?:**

Unknown for now as the company is not yet ready to discuss the key numbers — i.e., network economics, addressable market, sales force deployment etc. We understand that more details regarding the economics of this new strategic initiative will be forthcoming within the next few weeks. As a result, we are leaving our $16 private market value estimate unchanged for now. Our valuation methodology is based on our 10 year discounted cash flow (DCF) model, a 16% discount rate and an 8.0 multiple on terminal year EBITDA.

- **Strategic impact:**

We think this strategic shift is a good move for the new management team at ART as it repositions the company's focus from the wholesale market to one focused on the sale of services to end-users. As a result, ART will be the only pure-play publicly traded data CLEC in the industry today. In fact, ART's new data strategy — which leverages its ownership of local broadband capacity via its 38 GHz licenses — allows it to quickly leap frog many other firms looking to provide similar national data services but lacking local broadband capacity.

4Q97 results:

As expected, 4Q97 results showed virtually no improvement vs. 3Q with sequential service revenues actually flat at $190,000 vs. our last published estimate of $300,000. The installation of CEO Hirsch and his new senior management team a few months ago prompted a complete reappraisal of the company's strategy as well as a "top to bottom" corporate restructuring with a related halt in the company's wholesale service rollout activities.

6 February 1998

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Electric Lightwave, Inc.

Western US CLEC + LD Network Interconnecting Cities — **ACCUMULATE**

Reason for Report: Initial Opinion

Long Term ACCUMULATE

Price: $13.69

Estimates (DEC)	1996A	1997E	1998E
EPS:	NA	d$1.34	d$2.44
P/E:	NM	NM	NM
EPS Change (YoY):		NM	NM
Cash Flow/Share:	NA	d$3.27	d$6.95
Price/Cash Flow:	NM	NM	NM
Dividend Rate:	Nil	Nil	Nil
Dividend Yield:	Nil	Nil	Nil

Opinion & Financial Data

Investment Opinion:	D-2-2-9
Mkt. Value / Shares Outstanding (mn):	$736.7/51.7
Book Value/Share (Mmm-yy):	$5.14
Price/Book Ratio:	2.8
ROE 1996A Average:	NM
LT Liability % of Capital:	59%
Est. 5 Year EPS Growth:	NM

Stock Data

Range*:	16 3/8-12 3/8
Symbol / Exchange:	ELIX/OTC
Options:	NONE
Institutional Ownership-Spectrum:	NA

ML Industry Weightings & Ratings**

Strategy: Weighting Rel. to Mkt.:	
Income:	
Growth:	
Income & Growth:	
Capital Appreciation:	
Market Analysis: Technical Rating:	

**The views expressed are those of the macro department and do not necessarily coincide with those of the Fundamental analyst.
For full investment opinion definitions, see footnotes.
*From IPO 11/26/97

Investment Highlights:

- **Initiating coverage of Electric Lightwave Inc. (ELI) with an accumulate opinion (D-2-2-9).**
- **12-18 month price objective is $18 based on our 10 year DCF model, a 15% discount rate, and a 10.0x multiple on terminal year EBITDA.**

Fundamental Highlights:

- **By year-end '98, ELI will have local CLEC facilities built in 14 MSAs in the Western US. We est. that the mkt. addressable by ELI's local facilities will grow from $9.3B in '98 to $18.7 billion by '07, with ELI's share growing to 7.9% in '07 or just 1.2% of the total US market local mkt.**
- **ELI is connecting its markets with a 2,700 mile leased/owned long haul network to be completed by year end '98. By '07, we est. 28% of ELI's rev. will come from switched and dedicated LD sales.**
- **'98 revs. est. at $110MM, growing by 79% to $197MM in '99, reaching $2.0B in '07. We forecast EBITDA breakeven in 2H'00. By '07 we forecast EBITDA margins will reach 30.5% with a 70%/15%/15% blend of on-net, UNE & TSR local services.**
- **Partnerships with utilities companies provide capital expenditure savings and extend ELI's local & long haul network reach.**

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RC#20103712

We are initiating coverage on Electric Lightwave Inc. (ELI) with an intermediate and long term accumulate opinion (D-2-2-9). Our 12-18 month price objective is $18 or 31% upside from current prices. In our opinion, ELI is well positioned to compete in the highly lucrative local, LD voice and data markets in the western US through the use of its extensive local and long haul networks, comprehensive product set and strong sales force.

Company Description

ELI is a facilities-based competitive local exchange carrier (CLEC) providing local, LD voice and data services in six major market clusters or MSAs (metropolitan statistical areas) in the western United States: Portland, OR; Seattle, WA; Salt Lake City, UT; Sacramento, CA; Phoenix, AZ, and Las Vegas, NV. Prior to the 11/97 initial public offering, ELI was a subsidiary of Citizens Utilities Company, and Citizens has maintained an 85% ownership in the company.

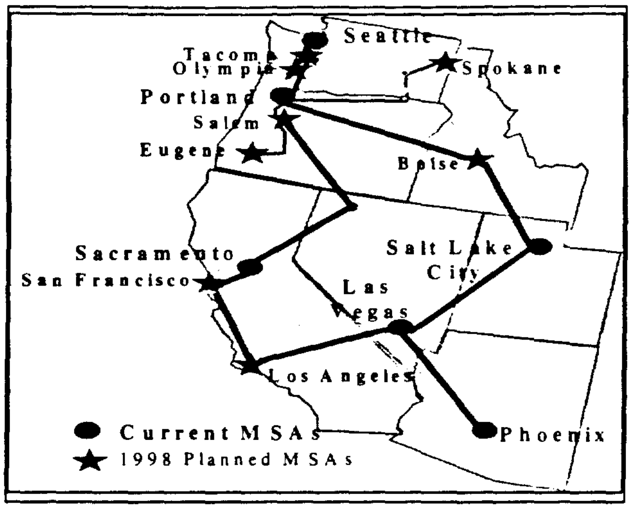
The Portland, OR based company's network includes 5 Nortel DMS 500 local/LD combination switches (one in each MSA), 1,007 miles of local fiber providing connectivity to 540 buildings, and 2,700 miles of long haul fiber connecting ELI's MSAs. The key to ELI's network strategy is the connection of its local markets via a owned/leased long haul network providing the opportunity for higher margins, quality control and pricing potential for both local and LD services within the western US.

ELI's local expansion plans call for constructing local networks in 8 additional MSAs in the western US during '98 including: Boise, ID; Spokane, WA; Tacoma, WA; Olympia, WA; Eugene, OR; Salem, OR; Los Angeles, CA; and San Francisco, CA, bringing the total number of MSAs served to 14. We estimate that ELI's current MSAs provide the ability to address $4.3 billion in local and data revenues in '97, an opportunity that will grow to $9.3 billion (with the 8 additional markets and an assumed 5% annual growth rate for the base 6 MSAs) in '98, $11.5 billion in '99, reaching $18.7 billion in '07.

ELI is also moving quickly to connect its cities through both owned and leased long haul facilities. As shown in Chart 1 below, the company currently has long haul facilities in place connecting Phoenix to Las Vegas and Portland to Seattle, with connections running between Portland and Spokane, Salem, and Eugene expected to be in service by 2Q98. ELI's largest long haul route will be Portland to LA (via Boise, Salt Lake City, and Las Vegas) which should be in service by year-end '98.

ELI has cost effectively constructed its networks utilizing partnerships and joint builds. Through partnerships with utility companies, ELI has rights to 725 miles of local and long haul fiber. In addition, ELI has purchased 24 fiber optic strands of the Williams Company long haul network for its Portland to LA connection which should be available by year-end '98.

Chart 1: ELI Network



Source: Company documents

3 Key Value Drivers At ELI

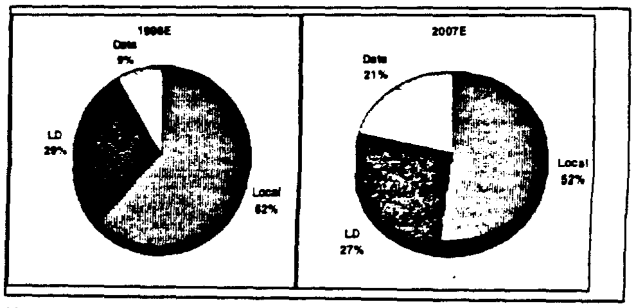
Value Driver #1. Attractive macro environment–expanded addressable market:

Regulatory and legislative changes on both the Federal and state levels have greatly expanded the nationwide market potentially addressable by new local competitors from $5 billion to $100 billion.

Value Driver #2. Strong top line growth forecast with a 10-year CAGR of 38%, driven by the sale of bundled services to small & medium-sized business customers:

We estimate that ELI will have revenues of $110.0 million for '98, growing by 79% to $196.5 million by '99, 68% to $329.9 million by '00, and reaching $2.0 billion in '07, with a 10 year CAGR of 38%. We forecast ELI's '98 EBITDA losses to be $50.7 million, with EBITDA breakeven occurring in 2H'00. We expect EBITDA to reach $621.9 million or 30.5% of revenues by '07. Our forecast assumes that ELI will use a mix of on-net, total service resale (TSR), and unbundled network elements (UNE) services in order to reach its customers. We estimate that ELI's traffic mix will shift from 81% on-net traffic in '98 down to 69% by '07 as the company moves from a predominately on-net strategy to more resale.

Chart 2: 1998E and 2007E Revenue Mix



Merrill Lynch estimates:

Key assumptions underlying our forecast are as follows:

Local Services:

1. **Industry context** – $100 billion local market growing 4.0-4.5% per annum through '07.

2. **Geographic coverage** – At year-end '97, ELI offered service to business customers in 6 MSAs constituting a local voice and data market addressable by existing facilities of $4.3 billion in '97. We estimate that expansion into 8 additional MSAs and continuing development of existing network infrastructure will enable ELI to target a $9.3 billion addressable market in '98, $11.5 billion in '99, reaching $18.7 billion in '07.

3. **Local and data market share**–We estimate that ELI will penetrate approximately 0.8% or $80.3 million of its addressable combined local and data market in '98, growing to 1.2% in '99 or $138.3 million, 1.8% in '00 or $264.0 million, reaching 7.9% or $1.5 billion by '07. These penetration rates are in line with our previous CLEC work which assumes that in addition to ELI, there will be two other local and data facilities-based and four UNE/TSR based competitors to the ILEC (incumbent local exchange carrier) in each market area, and in aggregate these new competitors will take a combined 28% local and data market share from the ILEC.

4. **LD market share** – Our estimates assume that ELI will penetrate approximately 0.4% or $29.7 million of the $4.2 billion addressable LD market within its MSAs in '98, growing to $561.1 million in '07 or 5.0% of ELI's $8.4 billion addressable LD market in '07.

Table 1 below outlines our key financial assumptions for ELI.

Table 1: Key Financial Assumptions

	1998	2000	2003	2007
Addressable Market Share				
Local	0.86%	1.79%	4.68%	7.91%
Long Distance	0.4%	0.7%	2.3%	5.0%
EBITDA Margin	-37.0%	-4.0%	14.8%	30.5%
Capital Expenditures	130.0	200.0	175.0	175.0
Free Cash Flow	(162.8)	(340.6)	(286.6)	125.4

Source: Merrill Lynch estimates

Value Driver #3. Strategic partnerships help to quickly boost network reach:

As discussed above, ELI's strategic relationships with electric utility companies in Portland and Salt Lake City have proven to be extremely beneficial by providing immediate access to local network facilities, buildings, and customers. We estimate that ELI has saved approximately $50 million in capital expenditures through these partnerships for the use of 725 miles of long haul fiber, assuming an estimated construction cost of $70,000 per fiber mile for aerial construction.

Strategic Assets —Takeover value of $18 per share:

Given the strategic value of ELI's network infrastructure, its in-place bundled service sales force and its customer base, one cannot rule out a possible bid for the company. If a transaction for ELI were to occur, we estimate that a buyer could offer $18 per share based on our 10 year DCF model. We think a potential buyer would be attracted by the significant time to market advantage of buying in-place local infrastructure, a customer base as well as "know how' that resides in-house. Potential buyers include large LD companies such as WorldCom/MCI, Sprint, AT&T as well as other large CLECs such as Intermedia, ICG, or NEXTLINK looking to quickly expand into new markets as well as augment the footprint of existing networks.

Attractive valuation

Our private market value for ELI is $18, or 31% upside. Our private market value estimate is based on our 10 year DCF (discounted cash flow) model. Key assumptions in our analysis (see table 2 below) include a 15% discount rate, a 10x multiple on terminal year EBITDA, a 7.3% perpetual growth rate of unlevered free cash flow, and a 10% "haircut" to private market value for majority stock ownership by Citizens Utilities. Our analytical approach on ELI is consistent with that employed in our earlier work on other CLECs, including 3 CLECs that have been taken over: Brooks and MFS by WorldCom and the pending acquisition of Teleport by AT&T. We use similar assumptions regarding terminal-year EBITDA multiples and local market penetration rates and free cash flow perpetual growth rates.

Table 2: ELI Valuation Summary

	Year End 1998E
Discount Rate	*15.0%*
Terminal Multiple	*10.0*
Implied Perpetual Growth of Unlevered Free Cash Flow	*7.3%*
+PV of Unlevered Free Cash Flow	($237)
+PV of Terminal Value	$1,768
=Enterprise Value	$1,531
xMajority Stockholder Discount	90%
=Enterprise Value Less Discount	$1,377.9
- Net Debt	$452
=Private Market Value - Equity	$926
Fully Diluted Shares Outstanding	52.7
=Per Share Private Market Value	$17.56

Source: Merrill Lynch estimates

Table 3: Electric Lightwave Detailed Financial Forecast

	1997E	1998E	1999E	2000E	2001E	2002E	2003E	2004E	2005E	2006E	2007E
Revenue											
Local Switched	9.0	19.8	43.6	87.1	156.8	250.9	376.4	526.9	674.4	775.6	837.6
Long Distance Switched	9.0	15.4	26.2	43.2	69.1	107.1	160.7	225.0	292.5	351.0	421.1
Data	8.7	17.6	35.2	66.9	107.0	155.2	201.7	256.2	320.2	393.9	433.3
Network Access											
Local	26.4	42.9	59.5	83.6	103.5	124.2	142.8	160.7	178.4	196.2	209.9
Long Haul	6.6	14.3	32.0	49.1	69.0	82.8	95.2	107.1	118.9	130.8	140.0
Total Network Access	33.0	57.2	91.5	132.7	172.5	207.0	238.1	267.8	297.3	327.0	349.9
Total Revenue	59.7	110.0	196.5	329.9	505.5	720.2	976.8	1,275.9	1,584.4	1,847.4	2,042.0
Expense											
Network Costs (COGS)	28.1	51.7	78.6	115.5	161.7	216.1	270.3	325.7	373.2	401.4	409.3
Operations/Engineering	13.7	31.9	49.1	79.2	121.3	172.9	234.4	306.2	380.3	443.4	490.1
Sales & Marketing	14.3	28.6	45.2	69.3	103.6	144.0	190.5	248.8	309.0	360.3	398.2
Admin General	19.7	38.5	55.0	69.3	85.9	108.0	127.0	127.6	118.8	110.8	122.5
Lease Payment	6.0	10.0	10.0	10.0	10.0	10.0	10.0	-	-	-	-
Dep. & Amort.	11.2	27.4	46.7	66.1	85.8	106.5	120.5	134.5	148.5	162.5	176.5
Interest exp, net	0.7	14.1	69.3	117.3	162.3	206.6	246.2	282.8	306.2	311.6	311.6
Net Profit (Loss)	(34.0)	(92.2)	(157.5)	(196.7)	(225.2)	(243.8)	(222.1)	(149.7)	(51.5)	57.5	133.9
EPS	$ (0.66)	$ (1.75)	$ (2.93)	$ (3.58)	$ (4.02)	$ (4.27)	$ (3.81)	$ (2.52)	$ (0.85)	$ 0.93	$ 2.12
Shares O/S	51.7	52.7	53.8	54.9	56.0	57.1	58.2	59.4	60.6	61.8	63.0
EBITDA	(22.1)	(50.7)	(41.4)	(13.3)	22.9	69.2	144.6	267.5	403.2	531.6	621.9
Cap Exp	130.0	270.0	250.0	200.0	200.0	175.0	175.0	175.0	175.0	175.0	175.0
Free Cash Flow	(162.8)	(349.8)	(370.7)	(340.6)	(349.4)	(322.3)	(286.6)	(200.2)	(87.9)	35.0	125.4
Net Debt	131	452	743	956	1,134	1,239	1,270	1,177	949	592	146
Margins											
Network Expense	*47.0%*	*47.0%*	*40.0%*	*35.0%*	*32.0%*	*30.0%*	*27.7%*	*25.5%*	*23.6%*	*21.7%*	*20.0%*
Operations/Engineering	*23.0%*	*29.0%*	*25.0%*	*24.0%*	*24.0%*	*24.0%*	*24.0%*	*24.0%*	*24.0%*	*24.0%*	*24.0%*
Sales & Marketing	*24.0%*	*26.0%*	*23.0%*	*21.0%*	*20.5%*	*20.0%*	*19.5%*	*19.5%*	*19.5%*	*19.5%*	*19.5%*
Admin General	*33.0%*	*35.0%*	*28.0%*	*21.0%*	*17.0%*	*15.0%*	*13.0%*	*10.0%*	*7.5%*	*6.0%*	*6.0%*
Lease Payment	*10.0%*	*9.1%*	*5.1%*	*3.0%*	*2.0%*	*1.4%*	*1.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Dep. & Amort.	*18.8%*	*24.9%*	*23.8%*	*20.0%*	*17.0%*	*14.8%*	*12.3%*	*10.5%*	*9.4%*	*8.8%*	*8.6%*
Interest exp. net	*1.2%*	*12.8%*	*35.3%*	*35.6%*	*32.1%*	*28.7%*	*25.2%*	*22.2%*	*19.3%*	*16.9%*	*15.3%*
Pretax Profit (loss)	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*3.1%*	*6.6%*
Net Profit (Loss)	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*3.1%*	*6.6%*
EBITDA %	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*25.4%*	*28.8%*	*30.5%*
Y/Y Change											
Local Revenues		*120.0%*	*120.0%*	*100.0%*	*80.0%*	*60.0%*	*50.0%*	*40.0%*	*2.08%*	*15.0%*	*8.0%*
Long Distance Revenues		*71.1%*	*70.0%*	*65.0%*	*60.0%*	*55.0%*	*5.00%*	*40.0%*	*30.0%*	*20.0%*	*20.0%*
Data Revenues		*102.3%*	*100.0%*	*90.0%*	*60.0%*	*45.0%*	*30.0%*	*27.0%*	*25.0%*	*23.0%*	*10.0%*
Local Network Access		*62.5%*	*38.7%*	*40.5%*	*23.8%*	*20.0%*	*15.0%*	*13.0%*	*11.0%*	*10.0%*	*7.0%*
Long Haul Network		*116.7%*	*124.0%*	*53.3%*	*40.5%*	*20.0%*	*15.0%*	*12.5%*	*11.0%*	*10.0%*	*7.0%*
Total Network Access		*73.3%*	*60.0%*	*45.0%*	*30.0%*	*20.0%*	*15.0%*	*12.5%*	*11.0%*	*10.0%*	*7.0%*
Total Revenue		*84.3%*	*78.6%*	*67.9%*	*53.2%*	*42.5%*	*35.6%*	*30.6%*	*24.2%*	*16.6%*	*10.5%*
Network Costs (COGS)		*84.3%*	*52.0%*	*46.9%*	*40.1%*	*33.6%*	*25.1%*	*20.5%*	*14.6%*	*7.6%*	*2.0%*
Operations/Engineering		*132.3%*	*54.0%*	*61.2%*	*53.2%*	*42.5%*	*35.6%*	*30.6%*	*24.2%*	*16.6%*	*10.5%*
Sales & Marketing		*99.6%*	*58.0%*	*53.3%*	*49.6%*	*39.0%*	*32.2%*	*30.6%*	*24.2%*	*16.6%*	*10.5%*
Admin General		*95.4%*	*42.9%*	*25.9%*	*24.0%*	*25.7%*	*17.5%*	*0.5%*	*-6.9%*	*-6.7%*	*10.5%*
Dep. & Amort.		*144.1%*	*70.6%*	*41.4%*	*29.8%*	*24.1%*	*13.1%*	*11.6%*	*10.4%*	*9.4%*	*8.6%*
Interest exp. net		*1872.0%*	*391.5%*	*69.3%*	*38.4%*	*27.3%*	*19.2%*	*14.9%*	*8.3%*	*1.8%*	*0.0%*
Net Profit (Loss)		*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*132.8%*
EPS			*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*128.2%*
Shares O/S		*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*
EBITDA		*NM*	*NM*	*NM*	*NM*	*202.9%*	*108.9%*	*85.0%*	*50.7%*	*31.8%*	*17.0%*

Source: Merrill Lynch estimates

12 May 1998

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e.spire Communications, Inc.

In.spiring CLEC Growth With A Data Twist ACCUMULATE

Reason for Report: Initial Opinion

Long Term BUY

Price: $18 1/2

Estimates (Dec)	1997A	1998E	1999E
EPS	d$4.65	d$3.61	d$2.96
P/E	NM	NM	NM
EPS Change (YoY)		NM	NM
Cash Flow/Share	d$3.77	d$2.66	d$1.91
Price/Cash Flow	NM	NM	NM
Dividend Rate	Nil	Nil	Nil
Dividend Yield	Nil	Nil	Nil

Opinion & Financial Data

Investment Opinion:	D-2-1-9
Mkt Value / Shares Outstanding (mn):	$697 / 37.7
Book Value/Share (Mar-98):	-$2.74
Price/Book Ratio:	NM
LT Liability % of Capital:	77%
Est 5 Year EPS Growth:	NM

Stock Data

52-Week Range:	$19 7/8 - $4 7/8
Symbol / Exchange:	ESPI/ OTC
Options:	None

ML Industry Weightings & Ratings**

Strategy: Weighting Rel. to Mkt.:		
Income:	Overweight	(07-Mar-95)
Growth:	Underweight	(07-Mar-95)
Income & Growth:	Overweight	(07-Mar-95)
Capital Appreciation:	Overweight	(16-Jan-96)
Market Analysis: Technical Rating:	Above Average	(24-Dec-96)

**The views expressed are those of the macro department and do not necessarily coincide with those of the Fundamental analyst.
For full investment opinion definitions see footnotes.

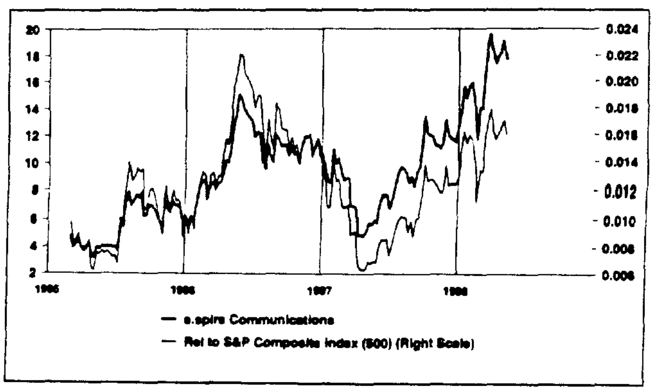
Investment Highlights:

- **We are initiating coverage of e.spire (formerly American Comm. Services) with an interm. term Accumulate & long term Buy opinion.**
- **12-18 mo. price objective is $28 or 51% upside based on the midpoint of our year-end '98 & '99 10 year DCF models, a 15% discount rate, and a 9.5x mult. on terminal year EBITDA.**

Fundamental Highlights:

- **Our forecast assumes that e.spire will have fiber rings built in 36 MSAs in the southern half of the US by year-end '98. We estimate that the size of the local market resident in MSAs where e.spire has local facilities will grow from $12.8Bn in '98 to $40.6Bn by '08, with e.spire's share growing to 6.8% in '08 or just 1.7% of the total US local market.**
- **'98 revs. estimated at $156MM, doubling in '99 to $325MM, reaching $3.2Bn in '08. By '08, we forecast EBITDA margins will reach 23.8% with a 17%/64%/19% blend of on-net, UNE & TSR local services.**
- **New management team -- led by CEO Jack Reich -- installed within the past 15 mos. and should help to accelerate e.spire's bundled service rollout efforts.**

Stock Performance



Merrill Lynch & Co.
Global Securities Research & Economics Group
Global Fundamental Equity Research Department

RC#20113203

We are initiating coverage on e.spire Communications with an intermediate term Accumulate and long term Buy opinion. Our 12-18 month price objective is $28 or 51% upside from current prices.

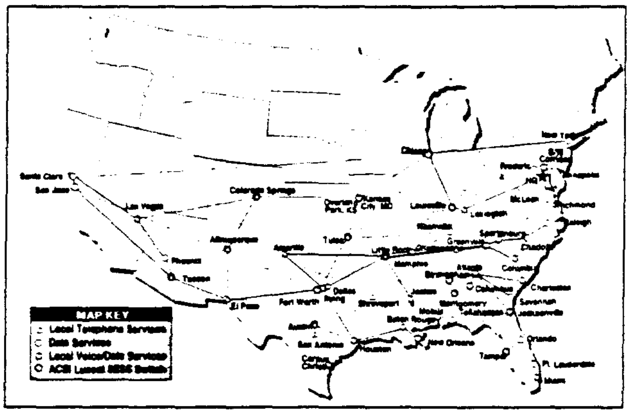
Company Description: e.spire Communications is a facilities-based competitive local exchange carrier (CLEC) providing local, long distance (LD), data and high speed internet services primarily to small & medium-sized business customers located in the southern half of the US. Currently, e.spire provides switched local telecom service in 37 MSAs (metropolitan statistical areas), 32 where it maintains competitive local fiber optic rings as well as an additional 5 MSAs where service is provided on a TSR (total service resale) basis using rented ILEC (incumbent local exchange carrier) local network facilities.

The Annapolis Junction, MD-based company's network at year-end '97 (see Chart 1) included 16 Lucent 5ESS combination local/LD telephone switches, 1,061 local fiber route miles, and network connectivity to 1,604 customer buildings. In addition, the company recently disclosed that during 1Q98, 22,500 new local access lines were added, bringing the corporate total to 57,605, or a sequential increase of 64%.

e.spire's network expansion plans call for the addition of: a) local fiber rings in 4-5 new MSAs per year (sufficient, by our estimation, to bring total MSA count to 50 by '02); and, b) the addition of 24 voice switches to raise the corporate total to 40. To a limited extent, e.spire has arrayed its local networks in "clusters" to take advantage of cost synergies of operating geographically-concentrated networks as well as to avail itself of regional LD traffic between key "communities of interest". Examples of these clusters include: Washington, DC/Baltimore/ Northern VA.; Dallas/Ft. Worth/Irving; and, Miami/Ft. Lauderdale. We estimate that the telecom market resident within the 36 MSAs where e.spire will have operational fiber rings by year-end '98 will total $12.8Bn in local and data revenues in '98. This market opportunity is then expected to grow to $15.7Bn in '99, $19.3Bn in '99, eventually reaching $40.6Bn by '08. The two key assumptions underlying our forecast are: a) total number of operational fiber rings grows to a total of 50 by '02; and, b) an assumed 5% annual growth in the market resident within the base 36 MSAs.

e.spire's selling strategy differs from that of solely pursuing voice traffic (both local and LD) from small and medium-sized business customers. Instead, e.spire was one of the first CLECs to offer its business customers a fully integrated suite of both voice AND data (including high speed internet) services. This full product line -- especially on the data side -- not only assists e.spire in the pursuit of new customers but, just as importantly, should assist in reducing customer churn over time. This product positioning was further enhanced via the acquisition last year of Cybergate. Cybergate, which was purchased for approximately $9MM in stock in early '97, is an internet service provider or ISP serving both the business and residential markets. We expect that this acquisition will provide e.spire with a number of important benefits including: a) the expansion of internet services offerings, and, b) providing an opportunity to cross-sell local, LD and other high speed data services to Cybergate's rapidly growing customer base of 44,500 (1Q98 sequential growth of 14%).

Chart 1: e.spire Network Map



Source: Merrill Lynch estimates

3 Key Value Drivers At e.spire

Value Driver #1. Attractive macro environment - expanded addressable market:

Regulatory and legislative changes on both the Federal and state levels have greatly expanded the nationwide market potentially addressable by new local competitors from what had been just the $5Bn special access/private line market segment to now the entire $107Bn local switched telecom market.

Value Driver #2: Strong top line growth forecast with a 10 year CAGR of 36%, driven by the sale of bundled telecom services -- including data and high speed internet -- to small and medium-sized business customers in the southern half of the US:

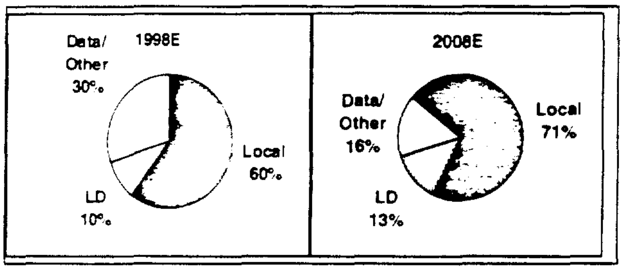
We estimate that in '98, e.spire's revenues will grow 164% y/y from $59MM in '97 to $156MM in '98, roughly double again in '99 to $325MM, grow 70% in '00 to $552MM, eventually reaching $3.2Bn by '08, with a 10 year CAGR of 36%. We forecast e.spire's '98 EBITDA losses to be $35MM, with EBITDA breakeven occurring during 1H'99. We expect EBITDA to eventually reach $772MM or 23.8% of revenues by '08. Our forecast model assumes that e.spire will utilize a mix of on-net (i.e., e.spire's "owned" last mile facilities), TSR, and unbundled network elements (UNE) services in order to reach its customers and that by '08, e.spire realizes EBITDA margins of 40% for on-net traffic, 25% for UNE and 10% for TSR. In addition, we estimate that e.spire's local traffic mix will shift away from a heavy dependence on TSR in '98 (54% of total with UNE's at 32% and on-net at 14%)

towards a network mix more heavily reliant on UNE's — 64% of total — with the balance almost evenly split between on-net and TSR by '08.

Key assumptions (detailed in Table 1 below) underlying our forecast are as follows:

4. **Industry context** - $107Bn local market growing 4.0-4.5% per annum through '08.
4. **Geographic coverage** – At year-end '97, e.spire offered service to business customers in 37 MSAs, a geographic area that contains a local voice and data market of $10.4Bn or roughly 10% of the US total. We estimate that the expansion of an additional 4-5 fiber rings in new MSAs per year through '02 to a total of 50, will increase the local telecom opportunity resident in e.spire's MSAs 23% to $12.8Bn in '98, 23% to $15.7Bn in '99, 23% to $19.3Bn in '00, eventually reaching $40.6Bn in '08.

Chart 2: 1998E and 2008E Revenue Mix



Source: Merrill Lynch estimates

4. **Local and data market share:** We estimate that during '98, e.spire will attain a 1.1% ($136MM) share of its local and data services resident within its MSAs. Our forecast calls for e.spire's market share to grow to 1.6% ($257MM) in '99, 2.2% ($432MM) in '00, reaching 6.8% ($2.8Bn) by '08. These market penetration rates are in line with our previously published CLEC work which assumes that, in addition to e.spire, there will be two other local/data facilities-based and four UNE/TSR-based competitors to the ILEC (incumbent local exchange carrier) in each market area, and in aggregate these new competitors will take a combined 29% local and data market share from the ILEC by '08.
4. **Long distance market share:** Our forecast assumes that e.spire will capture approximately 0.3% or $15MM of the $5.7Bn LD market available within its MSAs in '98, growing to $425MM or 2.5% of e.spire's $17.1Bn available LD market by '08.

Value Driver #3. New management in place helps to bolster confidence in long term growth prospects

Within the past 15 months, a new senior management team of experienced telecom executives was installed in an effort to reposition the company to better execute its bundled service product strategy -- both from an operations as well as sales & marketing perspective. The new management team is now led by: CEO Jack Reich (previously at Ameritech, MCI & AT&T); COO Ron Spears (Citizens Utilities and MCI division president); and, CFO Dave Piazza (MFS and AT&T).

Table 1: Key Financial Assumptions

	1998E	2000E	2004E	2008E
Avail. Business Lines* (Bn)	9.2	13.6	22.7	29.2
Monthly Revenue	$51.40	$50.30	$48.15	$46.05
Available Res. Lines* (Bn)	13.7	20.4	30.9	32.3
Monthly Revenue	$35.35	$36.05	$37.50	$39.05
Total Telephony Oppt'y (Bn)	$11.4	$17.0	$27.0	$31.2
Available Data Oppt'y* (Bn)	$1.4	$2.3	$5.1	$9.4
Local Available Market* (Bn)	$12.8	$19.3	$32.1	$40.6
Local Market Share	1.1%	2.2%	4.4%	6.8%
LD- Available Market* (Bn)	$5.7	$8.6	$14.2	$17.1
Long Distance Market Share	0.3%	1.3%	2.0%	2.5%
Combined Market Share	0.8%	1.9%	3.7%	5.6%
EBITDA Margin	-22.2%	9.0%	19.4%	23.8%
Capital Expenditures (MM)	$160.0	$200.0	$225.0	$250.0
Free Cash Flow (MM)	($245.0)	($235.3)	($4.0)	$430.6

Note: (numbers may not add due to rounding)
* - Estimated size of market available in the MSAs where e.spire sells service
Source: Merrill Lynch estimates

Strategic assets with estimated $28 takeover value: Given the strategic value of e.spire's network infrastructure, its in-place bundled service salesforce and its customer base, one cannot rule out a possible bid for the company. If a transaction for e.spire were to occur, we estimate that a buyer could offer $28 per share based on our 10 year discounted cash flow (DCF) model. We think a potential buyer would be attracted by the significant time to market advantage of buying in-place local infrastructure, a customer base as well as "know how" that resides in-house. Logical buyers could potentially include the large LD companies such as MCI/WorldCom, Sprint, AT&T as well as other large CLECs such as Intermedia, ICG, NEXTLINK or Electric Lightwave looking to quickly expand into new markets and augment the footprint of existing networks.

Attractive valuation: Our private market value estimate for e.spire is $28 or 51% upside. This 12-18 month price objective, based on our 10 year DCF model, assumes the midpoint of our year-end private market value estimates for '98 and '99. Key assumptions incorporated in our DCF analysis (see Table 2 below) include a 15% discount rate, a 9.5 multiple on terminal year EBITDA, and a 6.3-8.1% perpetual growth rate of unlevered free cash flow. Our analytical approach towards valuing shares of e.spire is consistent with our earlier work on other CLECs.

Table 2: e.spire Valuation Summary

(in millions except per share values)	YE 1998E	YE 1999E
Discount Rate	*15.0%*	*15.0%*
Terminal Multiple	*9.5x*	*9.5x*
Implied Perpetual Growth of Unlevered Free CF	*8.1%*	*6.3%*
+PV of Unlevered Free CF	($8)	$325
+PV of Terminal Value	$1,727	$2,084
=Enterprise Value	$1,719	$2,409
- Net Debt	($329)	($644)
=Private Market Value - Equity	$1,390	$1,765
Fully Diluted Shares Outstanding	54.8	58.0
=Per Share Private Market Value	$ 25.36	$ 30.42

Risks to our recommendation include:

1. Need for external funding — both debt and equity — to fund network deployment strategy.
2. Execution risk — can the current management team and back office systems handle the dynamic growth forecast for e.spire?

Table 3: e.spire Financial Forecast

	1997A	1Q98A	2Q98E	3Q98E	4Q98E	1998E	1999E	2000E	2001E	2002E	2003E	2004E	2005E	2006E	2007E	2008E
Switched Local		8.2	11.0	15.4	20.5	55.1	155.1	301.2	484.1	677.7	881.0	1,101.2	1,343.5	1,598.8	1,854.6	2,132.8
Long Distance		0.1	2.0	5.0	8.0	15.1	60.0	110.0	160.0	220.0	250.0	285.0	320.0	355.0	390.0	425.0
Switched Services		8.3	13.0	20.4	28.5	70.2	215.1	411.2	644.1	897.7	1,131.0	1,386.2	1,663.5	1,953.8	2,244.6	2,557.8
Dedicated		8.5	9.3	10.1	11.0	38.9	44.8	51.5	59.2	68.1	78.3	88.5	100.0	113.0	127.7	144.3
Data/Internet		9.3	10.0	10.7	11.4	41.5	57.5	79.4	107.1	139.3	178.3	224.6	280.7	345.3	421.3	514.0
Other		1.3	1.5	1.5	1.5	5.8	8.0	10.0	12.0	14.0	16.0	18.0	20.0	22.0	24.0	26.0
Total Revenues	59.0	27.5	33.8	42.7	52.4	156.4	325.4	552.1	822.4	1,119.1	1,403.6	1,717.3	2,064.3	2,434.1	2,817.6	3,242.1
Cost of service	48.8	19.3	22.0	23.5	28.0	92.7	169.2	281.6	415.3	559.5	698.3	852.0	1,021.8	1,202.5	1,389.1	1,595.1
SG&A	65.2	21.4	22.0	26.0	29.6	99.0	146.4	220.8	304.3	386.1	456.2	532.4	619.3	705.9	788.9	875.4
Depr & Amort	24.1	8.3	10.2	11.3	12.8	42.5	53.3	72.0	92.0	113.3	135.8	158.3	180.8	203.3	227.0	252.0
Operating Profit	(79.2)	(21.5)	(20.3)	(18.2)	(17.9)	(77.9)	(43.5)	(22.4)	10.8	60.2	113.3	174.7	242.4	322.5	412.6	519.6
Interest Exp (net)	32.9	10.6	12.5	13.0	13.5	49.6	70.0	85.0	97.5	120.0	120.0	112.0	108.0	100.0	90.0	91.0
Pretax Profit	(112.1)	(32.1)	(32.8)	(31.2)	(31.4)	(127.5)	(113.5)	(107.4)	(86.7)	(59.8)	(6.7)	62.7	134.4	222.5	322.6	428.6
Net Profit	(112.1)	(32.1)	(32.8)	(31.2)	(31.4)	(127.5)	(113.5)	(107.4)	(86.7)	(59.8)	(6.7)	62.7	134.4	222.5	322.6	428.6
Prfd Stk Div/Accr'tn	11.6	8.5	8.1	8.4	8.7	33.7	37.7	43.0	49.1	56.1	64.1	73.2	83.6	95.5	109.1	0.0
Net Income	(123.7)	(40.6)	(40.9)	(39.5)	(40.1)	(161.2)	(151.2)	(150.4)	(135.9)	(115.9)	(70.7)	(10.5)	50.8	127.0	213.4	428.6
EPS	($4.65)	($1.08)	($0.89)	($0.84)	($0.84)	($3.61)	($2.96)	($2.90)	($2.59)	($2.17)	($1.31)	($0.19)	$0.91	$2.24	$3.71	$7.35
Shares O/S	27.26	37.71	46.10	47.00	47.80	44.65	51.00	51.77	52.54	53.33	54.13	54.94	55.77	56.60	57.45	58.31
EBITDA	(55.1)	(11.6)	(10.1)	(6.8)	(5.2)	(35.4)	9.8	49.7	102.8	173.5	249.1	333.0	423.2	525.8	639.6	771.6
Lines in srvc. (000's)		57.6	83.6	113.6	148.6		348.6	598.6	923.6							
Cap Exp	149.4	40.0	45.0	45.0	30.0	160.0	175.0	200.0	200.0	225.0	225.0	225.0	225.0	225.0	250.0	250.0
Free cash flow		(63.8)	(67.6)	(64.8)	(48.7)	(245.0)	(235.2)	(235.3)	(194.7)	(171.5)	(95.9)	(4.0)	90.2	200.8	299.6	430.6
Margins																
Cost of service	82.8%	70.1%	65.0%	55.0%	53.5%	59.3%	52.0%	51.0%	50.5%	50.0%	49.8%	49.6%	49.5%	49.4%	49.3%	49.2%
SG&A	110.5%	78.0%	65.0%	61.0%	56.4%	63.3%	45.0%	40.0%	37.0%	34.5%	32.5%	31.0%	30.0%	29.0%	28.0%	27.0%
Depr & Amort	40.9%	30.0%	30.2%	26.5%	24.3%	27.2%	16.4%	13.0%	11.2%	10.1%	9.7%	9.2%	8.8%	8.4%	8.1%	7.8%
EBITDA	NM	NM	NM	NM	NM	NM	3.0%	9.0%	12.5%	15.5%	17.8%	19.4%	20.5%	21.6%	22.7%	23.8%
Y/Y Change																
Total Revenues		235.9%	190.9%	165.9%	126.4%	165.0%	108.1%	69.7%	49.0%	36.1%	25.4%	22.4%	20.2%	17.9%	15.8%	15.1%
Cost of service		122.1%	134.7%	120.6%	39.0%	89.9%	82.5%	66.4%	47.5%	34.7%	24.8%	22.0%	19.9%	17.7%	15.5%	14.8%
SG&A		51.4%	33.3%	39.6%	85.9%	51.8%	47.9%	50.8%	37.8%	26.9%	18.2%	16.7%	16.3%	14.0%	11.8%	11.0%
Shares O/S		380.2%	64.5%	29.7%	29.5%	63.8%	14.2%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
EBITDA		NM	NM	NM	NM	NM	NM	409.0%	106.9%	68.7%	43.6%	33.7%	27.1%	24.2%	21.6%	20.6%

Source: Merrill Lynch estimates

16 March 1998

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ICG Communications, Inc.

New Data Initiative Announced, Raising Private Market Price Obj. To $42

ACCUMULATE*

Reason for Report: New Initiatives Announced

Long Term ACCUMULATE

Price: **$37 1/8**
12 Month Price Objective: $42

Estimates (Dec)	1997A	1998E	1999E
EPS	d$9.75	d$6.34	d$6.39
P/E	NM	NM	NM
EPS Change (YoY)		NM	NM
Consensus EPS: (First Call: 09-Mar-98)		d$6.42	d$5.42
Cash Flow/Share	d$7.99	d$3.83	d$2.81
Price/Cash Flow	NM	NM	NM
Dividend Rate	Nil	Nil	Nil
Dividend Yield	Nil	Nil	Nil

Opinion & Financial Data

Investment Opinion:	D-2-2-9
Mkt. Value / Shares Outstanding (mn):	$1,238 / 32
Book Value/Share (Sep-97):	-8.88
Price/Book Ratio:	NM

Stock Data

52-Week Range:	$39 7/8-$8 5/8
Symbol / Exchange:	ICGX / OTC
Options:	AMEX
Institutional Ownership-Spectrum:	91.3%
Brokers Covering (First Call):	13

ML Industry Weightings & Ratings**

Strategy: Weighting Rel. to Mkt.:		
Income:	Overweight	(07-Mar-95)
Growth:	Underweight	(07-Mar-95)
Income & Growth:	Overweight	(07-Mar-95)
Capital Appreciation:	Overweight	(16-Jan-96)
Market Analysis: Technical Rating:	Above Average	(24-Dec-96)

*Intermediate term opinion last changed on 18-Sep-97.
**The views expressed are those of the macro department and do not necessarily coincide with those of the Fundamental analyst.
For full investment opinion definitions, see footnotes
Merrill Lynch or an affiliate has a proprietary investment in this company

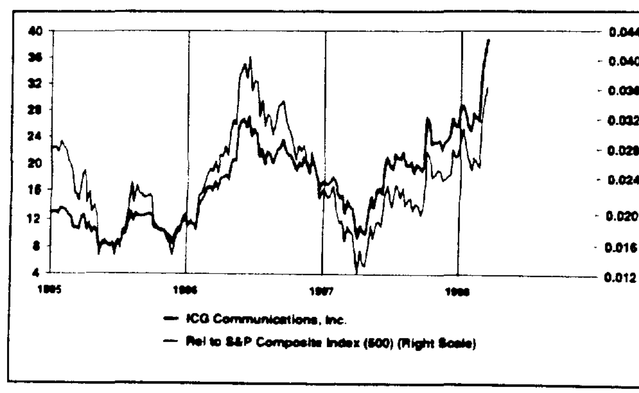
Merrill Lynch is currently acting as a financial advisor and has rendered a fairness opinion to Teleport Communications Group Inc. in connection with the proposed acquisition of it by AT&T Corporation, which was announced on January 8, 1998.

Teleport Communications Group Inc. has agreed to pay a fee to Merrill Lynch for its financial advisory services, a significant portion of which is contingent upon the consumation of the proposed transaction.

Investment Highlights:

- **Prior to the market open on March 11, ICG announced 2 "data oriented" products that helps to expand the company's breadth of product offerings.**
- **1) Flat rate IP (internet protocol) telephony offering at $0.059-$0.072 per minute bests recent product announcements of similar services by both Qwest and AT&T. ICG's extensive local infrastructure and internet backbone should allow for attractive margins.**
- **2) DSL (digital subscriber line) initiative will allow ICG to offer high speed internet access (at first) to business customers as well as a portion of NETCOM's 500,000 dial-up subscriber base. Over time, as DSL technology develops, ICG will expand high speed offering to include additional services.**
- **Raising our year-end '98 private market value estimate by $6 or 17% to $42, reflecting the forecasted impact from the new IP telephony product. Although we are not including DSL in our forecast, this new product could add an additional $3 to PMV.**
- **Reiterate Accumulate opinion for both the intermediate and long term.**

Stock Performance



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Global Securities Research & Economics Group
Global Fundamental Equity Research Department
435240/435200/435197/435100/435000

RC#20107537

Prior to the market open on March 11, ICG announced two new "data oriented" initiatives designed to both enhance the corporate product as well as leverage the data opportunity resident within its customer base.

IP Telephony:

ICG announced a flat rate, nation-wide LD product offering. This new product, which will be marketed to business customers as well as NETCOM's 500,000 dial-up internet subscribers in 166 markets by year-end '98, offers callers flat rate LD calling anywhere in the US. ICG will offer its IP telephony product for $0.059/min. for calls originating and terminating "on-net" (i.e., in cities with internet POP — point of presence — facilities) and $0.072/min. for calls terminating in "off net" cities (i.e., without internet POP facilities).

The economics of this new product look quite favorable for both the end user (i.e., a 49-58% discount vs. average LD rate of $0.14/min.) and ICG as detailed in Table 1 below. SG&A support should be minimal as product sales will be via the internet and out-bound telemarketing and billing options will include free billing by credit card or hard copy bill for which ICG will collect an additional fee of $1.70/month. Cap exp requirements related to this new product offering should be minimal as the service will be provided over existing internet backbone and local POP facilities, all of which have sufficient (or easily expandable) capacity to meet the demands of this product.

Table 1: IP Telephony Economics

	Typical LD Call	On-To-On-Net Call	On-To-Off-Net Call
Average LD Rate/Min	$0.140	$0.140	$0.140
ICG Rate		$0.059	$0.072
% Discount		58%	49%
Cost to ICG (per minute)			
Originating Access	$0.025	$0.000	$0.000
Terminating Access	$0.025	$0.000	$0.025
Long Haul Transport	$0.015	$0.005	$0.005
Network Costs	$0.065	$0.005	$0.030
Gross Margin	$0.075	$0.054	$0.042
% of revenue	46%	92%	58%
Depreciation	$0.005	$0.002	$0.002
SG&A	$0.035	$0.011	$0.011
Operating Margin	$0.035	$0.041	$0.029
% of revenue	25%	70%	40%

Source: Company reports and Merrill Lynch estimates

Notably, this offer undercuts similar IP LD products recently announced by both Qwest at $0.075/min. and AT&T at $0.075-$0.090/min. and highlights the continuing escalation of the LD industry's competitive environment.

We are raising our private market value (PMV) estimate by $6 to reflect the impact from IP Telephony

based on the following key assumptions: 1) ICG can address 1/3 of the US LD market with this product; 2) ICG's LD share grows to 2% of its addressable market by '07; and, 3) revenues/minute and EBITDA margins, over time, decline due to competitive pressures.

DSL Initiative:

In addition to the IP product, ICG also unveiled a DSL (digital subscriber line) product, aimed at providing high-speed connectivity (i.e., 144Kbs to upwards of 9Mbs)to business as well as NETCOM dial up customers (both business and residential users). Initially, the service will provide just high speed internet access for the NETCOM ISP product. Over time, voice services will be added as DSL technology improves. This product will initially be available to customers served by the 45 ILEC central switching offices (COs) in which ICG is "co-located". This number is expected to grow to 100 COs by year-end '98 and 3-400 by year-end '99. Estimated economics of this product are shown in Table 2 below:

Table 2: Estimated DSL Economics Under Various Loop Price Assumptions

Average Revenue/Month	$75.00	$75.00	$75.00
Monthly loop rental cost	$14.00	$19.00	$25.00
Gross Margin	$61.00	$56.00	$50.00
% of revenue	81%	75%	67%
SG&A*	$13.33	$13.33	$13.33
Depreciation*	$14.58	$14.58	$14.58
Operating Profit	$33.09	$28.09	$22.09
% of revenue	44%	38%	30%

*Note: SG&A includes the impact from 1x $100/customer installation fees amortized over 4 years. Depreciation assumes capital costs of $500/CO port and $200 for customer DSL modem and 4 year straight line depreciation.
Source: Company reports and Merrill Lynch estimates

Possible Impact On PMV?

Although we are not incorporating the potential from DSL into our forecast at present pending further due diligence, we estimate that this new product could add an additional $3 to year-end '98 private market value based on the following assumptions: 1) percent of NETCOM's dial-up subscriber base that are served by CO's where ICG is co-located grows from 35% in '99 to 50% by '07; 2) 60% of lines in a CO are "serviceable" for DSL; 3) DSL penetration grows to 35% by '07; and, 4) $75/mo. average revenue declines 3%/yr.

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3 April 1998

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Intermedia Communications Inc

Stock Weakness Creates Excellent Buying Oppt'y, Upgrade To Buy/Buy

BUY*

Reason for Report: Opinion Upgrade

Long Term BUY

Price: **$75 1/16**

12 Month Price Objective: $105

Estimates (Dec)	1997A	1998E	1999E
EPS:	d$10.83	d$12.30	d$10.38
P/E:	NM	NM	NM
EPS Change (YoY):		NM	NM
Consensus EPS: (First Call 01-Apr-98)		d$11.64	d$10.47
Q1 EPS (Mar):	d$1.89	d$4.16	
Cash Flow/Share:	d$7.64	d$4.88	d$0.44
Price/Cash Flow:	NM	NM	NM
Dividend Rate:	Nil	Nil	Nil
Dividend Yield:	Nil	Nil	Nil

Opinion & Financial Data

Investment Opinion:	D-1-1-9
Mkt. Value / Shares Outstanding (mn):	$13,463.3 / 174
Price/Book Ratio:	NM

Stock Data

52-Week Range:	$91 1/4-$15 1/2
Symbol / Exchange:	ICIX / OTC
Options:	Pacific
Brokers Covering (First Call):	14

ML Industry Weightings & Ratings**

Strategy: Weighting Rel. to Mkt.:		
Income:	Overweight	(07-Mar-95)
Growth:	Underweight	(07-Mar-95)
Income & Growth:	Overweight	(07-Mar-95)
Capital Appreciation:	Overweight	(16-Jan-96)
Market Analysis: Technical Rating:	Above Average	(24-Dec-96)

*Intermediate term opinion last changed on 31-Mar-98.
**The views expressed are those of the macro department and do not necessarily coincide with those of the Fundamental analyst.
For full investment opinion definitions, see footnotes.

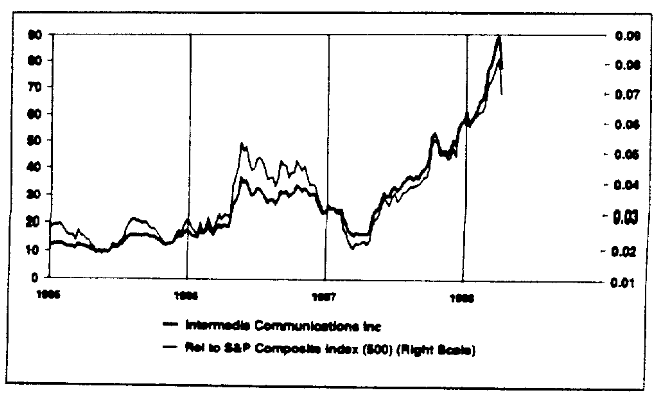
Investment Highlights:

- **Upgraded our intermediate term opinion to Buy following recent stock price weakness (down almost 15% in the past few days.).**
- **Reiterate 12 month private market value-based price objective of $105 or 40% upside.**

Fundamental Highlights:

- **Intermedia's stock has come under intense selling pressure over the past few days following heightened investor concern regarding 1Q and full year '98 forecast which we find unfounded.**
- **We reiterate confidence in our fundamental outlook. Recent discussions with management confirm reasonableness of our recently upwardly revised revenue and EBITDA forecast for both '98 and '99.**
- **Near term, key value drivers remain the strength of the core CLEC (competitive local exchange carrier) business, synergies expected from recently completed acquisitions as well as significant oppty's presented by data alliances with RBOCs such as US West with others possibly in the wings.**

Stock Performance



Merrill Lynch & Co.
Global Securities Research & Economics Group
Global Fundamental Equity Research Department
435238/435200/435197/435100/435000

RC#20109325

Table 1: Intermedia Communications – Financial Projections

($ in millions)	1997A	1Q98E	2Q98E	3Q98E	4Q98E	1998E	1999E	2000E	2001E	2002E	2003E	2004E	2005E	2006E	2007E
Revenue															
Local Network	42.0	24.4	29.0	33.9	39.7	127.0	215.0	325.0	475.0	657.9	878.3	1,141.7	1,450.0	1,798.0	2,157.6
Enhanced Data	57.8	19.0	24.6	31.5	39.9	115.0	279.0	348.8	418.5	489.6	563.1	647.6	738.2	834.2	934.3
Interexchange	113.2	44.3	59.8	79.0	101.9	285.0	360.0	444.6	533.5	634.9	746.0	857.9	986.6	1,134.6	1,304.7
Internet	28.8	20.1	22.3	25.0	28.5	95.9	210.0	252.0	296.1	340.5	391.6	450.3	506.6	564.9	621.4
Systems integration	6.1	26.0	29.7	33.7	37.8	127.2	137.0	150.0	165.0	180.0	194.4	208.8	219.2	230.2	241.7
Total Revenue	247.9	133.8	165.4	203.1	247.8	750.1	1,201.0	1,520.4	1,888.1	2,302.9	2,773.3	3,306.3	3,900.7	4,561.8	5,259.7
Expense															
Network Ops	164.5	69.0	84.4	101.1	119.0	373.5	609.5	741.4	893.3	1,032.5	1,217.1	1,418.2	1,642.2	1,893.2	2,156.5
Facil admin & maint.	31.7	12.8	12.7	12.0	12.4	49.9	81.7	106.4	132.2	161.2	194.1	231.4	273.0	319.3	368.2
Cost of goods sold	3.0	1.8	2.1	2.5	3.0	9.3	13.9	19.7	28.3	34.5	41.6	49.6	58.5	68.4	78.9
SG&A	98.6	54.8	57.1	58.5	57.0	227.4	285.3	354.1	434.8	575.7	687.8	816.7	959.6	1,122.2	1,288.6
Dep & Amort.	53.6	35.4	38.9	43.7	44.8	162.8	222.2	266.0	323.2	371.3	429.4	482.6	535.7	594.4	649.4
Operating Profit	(103.5)	(40.1)	(29.7)	(14.7)	11.7	(72.8)	(11.6)	32.7	76.3	127.6	203.3	307.8	431.7	564.3	718.1
Interest Expense	(60.7)	(26.4)	(30.7)	(35.5)	(40.3)	(132.9)	(142.1)	(153.6)	(165.6)	(174.1)	(224.1)	(239.1)	(221.3)	(220.5)	(180.0)
Other Income	26.8	4.0	3.0	2.0	1.0	10.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pretax Income	(137.3)	(62.5)	(57.4)	(48.2)	(27.6)	(195.7)	(152.1)	(120.9)	(89.3)	(46.5)	(20.8)	68.7	210.4	343.8	538.1
Net Income	(137.3)	(62.5)	(57.4)	(48.2)	(27.6)	(195.7)	(152.1)	(120.9)	(89.3)	(46.5)	(20.8)	68.7	126.2	206.3	322.9
Prf'd Divs	43.7	17.8	18.3	18.7	19.2	74.0	80.0	88.0	96.8	104.0	105.0	105.0	105.0	105.0	105.0
Net Income - Common	(181.1)	(80.3)	(75.7)	(66.9)	(46.8)	(269.7)	(232.1)	(208.9)	(186.1)	(150.5)	(125.8)	(36.3)	21.2	101.3	217.9
EPS	($10.83)	($4.16)	($3.44)	($2.96)	($1.97)	($12.30)	($10.38)	($9.16)	($8.00)	($6.34)	($5.20)	($1.47)	$0.84	$3.94	$8.31
Shares O/S	16.7	19.3	22.0	22.6	23.8	21.9	22.4	22.8	23.3	23.7	24.2	24.7	25.2	25.7	26.2
EBITDA	(49.9)	(4.6)	9.1	29.0	56.5	90.0	210.6	298.7	399.5	498.9	632.7	790.4	967.4	1,158.7	
Cap Exp	272.0	90.0	95.0	95.0	95.0	375.0	475.0	410.0	425.0	425.0	425.0	425.0	425.0	435.0	445.0
Free Cash Flow	(360.7)	(125.8)	(129.8)	(130.8)	(139.1)	(412.9)	(409.9)	(284.9)	(211.1)	(120.2)	(36.4)	106.3	301.0	399.0	585.0
Margins															
Network Ops	66.3%	51.6%	51.0%	49.8%	48.0%	49.8%	50.7%	48.8%	47.3%	44.8%	43.9%	42.9%	42.1%	41.5%	41.0%
Facil admin & maint.	12.8%	9.5%	7.7%	5.9%	5.0%	6.6%	6.8%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Cost of goods sold	1.2%	1.3%	1.3%	1.2%	1.2%	1.2%	1.2%	1.3%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
SG&A	39.8%	41.0%	34.5%	28.8%	23.0%	30.3%	23.8%	23.3%	23.0%	25.0%	24.8%	24.7%	24.6%	24.6%	24.5%
Dep & Amort.	21.6%	26.5%	23.5%	21.5%	18.1%	21.7%	18.5%	17.5%	17.1%	16.1%	15.5%	14.6%	13.7%	13.0%	12.3%
Operating Profit	-41.7%	-30.0%	-18.0%	-7.2%	4.7%	-9.7%	-1.0%	2.2%	4.0%	5.5%	7.3%	9.3%	11.1%	12.4%	13.7%
Interest Expense	-24.5%	-19.7%	-18.6%	-17.5%	-16.3%	-17.7%	-11.8%	-10.1%	-8.8%	-7.6%	-8.1%	-7.2%	-5.7%	-4.8%	-3.4%
Other Income	10.8%	3.0%	1.8%	1.0%	0.4%	1.3%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Loss	-55.4%	-46.7%	-34.7%	-23.7%	-11.1%	-26.1%	-12.7%	-8.0%	-4.7%	-2.0%	-0.8%	2.1%	3.2%	4.5%	6.1%
EBITDA	-20.1%	-3.5%	5.5%	14.3%	22.8%	12.0%	17.5%	19.6%	21.2%	21.7%	22.8%	23.9%	24.8%	25.4%	26.0%
Y/Y % Change															
Local Network	210.3%	367.8%	243.9%	187.2%	140.4%	202.6%	69.3%	51.2%	46.2%	38.5%	33.5%	30.0%	27.0%	24.0%	20.0%
Enhanced Data	82.6%	67.8%	94.2%	84.8%	137.5%	98.8%	142.6%	25.0%	20.0%	17.0%	15.0%	15.0%	14.0%	13.0%	12.0%
Interexchange	112.9%	73.5%	115.9%	185.8%	215.6%	151.8%	26.3%	23.5%	20.0%	19.0%	17.5%	15.0%	15.0%	15.0%	15.0%
Internet				81.1%	90.3%	233.2%	118.9%	20.0%	17.5%	15.0%	15.0%	15.0%	12.5%	11.5%	10.0%
Systems integration	21.4%	NM	NM	NM	NM	NM	7.7%	9.5%	10.0%	9.1%	8.0%	7.4%	5.0%	5.0%	5.0%
Total Revenue	139.8%	204.4%	230.0%	185.0%	200.1%	202.6%	60.1%	26.6%	24.2%	22.0%	20.4%	19.2%	18.0%	17.0%	15.3%
Expense															
Facil & line cost	138.0%	130.1%	126.4%	106.2%	147.0%	127.1%	63.2%	21.6%	20.5%	15.6%	17.9%	16.5%	15.8%	15.3%	13.9%
SG&A	316.4%	126.5%	120.0%	20.0%	20.9%	130.6%	25.5%	24.1%	22.8%	32.4%	19.5%	18.7%	17.5%	17.0%	14.8%
Dep & Amort	-30.9%	39.1%	168.0%	392.5%	522.4%	203.6%	36.5%	19.7%	21.5%	14.9%	15.7%	12.4%	11.0%	11.0%	9.3%
Operating Profit	NM	NM	NM	NM	NM	NM	NM	NM	NM	67.2%	59.3%	51.4%	40.2%	30.7%	27.3%
Interest Expense	72.3%	138.1%	176.2%	100.7%	94.1%	119.1%	6.9%	8.1%	7.8%	5.1%	28.7%	6.7%	-7.4%	-0.4%	-18.4%
Net Income	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	63.4%	56.5%
EPS	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Shares O/S	19.2%	18.4%	33.1%	35.0%	37.8%	31.2%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
EBITDA	NM	NM	NM	NM	NM	NM	134.0%	41.8%	33.7%	24.9%	26.8%	24.9%	22.4%	19.8%	18.0%

Source: Merrill Lynch estimates

Intermedia Communications Inc

24 March 1998

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Data, Data, RBOC Data; Raising PMV To $105, Reiterate Long Term Buy

ACCUMULATE*

Reason for Report: Revised Price Objective

Long Term BUY

Price: **$89 1/8**

Estimates (Dec)	1997A	1998E	1999E
EPS:	d$10.83	d$12.47	d$10.52
P/E:	NM	NM	NM
EPS Change (YoY):		NM	NM
Consensus EPS: (First Call: 25-Feb-98)		d$10.33	d$9.15
Q4 EPS (Dec):			
Cash Flow/Share:	d$7.62	d$4.94	d$0.45
Price/Cash Flow:	NM	NM	NM
Dividend Rate:	Nil	Nil	Nil
Dividend Yield:	Nil	Nil	Nil

Opinion & Financial Data

Investment Opinion:	D-2-1-9
Mkt. Value / Shares Outstanding (mn):	$1,379.1 / 17
Book Value/Share (Mar-97):	NA
Price/Book Ratio:	NM
ROE 1997E Average:	NA
LT Liability % of Capital:	NA
Est. 5 Year EPS Growth:	NA

Stock Data

52-Week Range:	$84 3/4-$12 7/8
Symbol / Exchange:	ICIX / OTC
Options:	Pacific
Institutional Ownership-Spectrum:	90.6%
Brokers Covering (First Call):	14

ML Industry Weightings & Ratings**

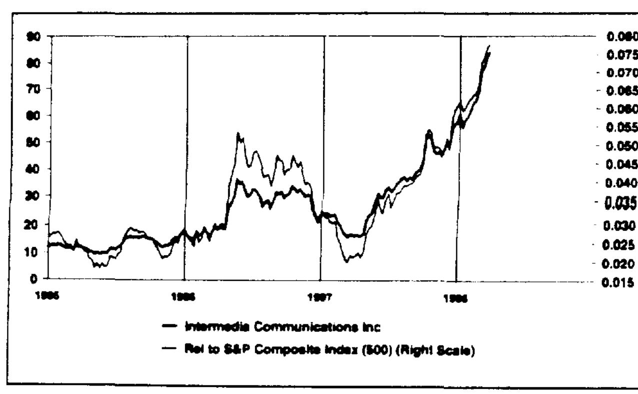
Strategy: Weighting Rel. to Mkt.:		
Income:	Overweight	(07-Mar-95)
Growth:	Underweight	(07-Mar-95)
Income & Growth:	Overweight	(07-Mar-95)
Capital Appreciation:	Overweight	(16-Jan-96)
Market Analysis: Technical Rating:	Above Average	(24-Dec-96)

*Intermediate term opinion last changed on 10-Jul-97.
**The views expressed are those of the macro department and do not necessarily coincide with those of the Fundamental analyst.
For full investment opinion definitions, see footnotes.

Investment Highlights:

- **Recent series of meetings with Intermedia's senior management team in both Tampa, FL. and NYC have prompted us to revise our near term and 10 year discounted cash flow forecast. Our recent meetings highlighted the strength of the core business, synergies from recently completed acquisitions as well as significant opportunity presented by data alliances with US West, etc.**
- **As a consequence, we are raising our '98 forecasts for revenue by 2% from $739 million to $750 million with no change to '98 EBITDA. In addition, we are raising our '99 forecasts for revenue and EBITDA by 9% from $1.1 billion to $1.2 billion and by 26% from $168 million to $211 million, respectively.**
- **We are increasing our 12 month private market value-based price objective by 48% from $71 to $105. Reiterate intermediate term Accumulate and long term Buy.**

Stock Performance



Merrill Lynch & Co.
Global Securities Research & Economics Group
Global Fundamental Equity Research Department

435238/435200/435197/435100/435000

RC#20108339

Revised 10 year forecast + RBOC data deals = Raising 12 month price objective to $105.

A recent series of meetings in both Tampa, FL. and NYC with Intermedia's senior management team over the past few weeks have led to a number of important revisions to our near term and 10 year discounted cash flow (DCF) model. Three key recent developments have prompted us to revisit many of our core modeling assumptions for Intermedia over the course of our 10 year DCF model:

1. Strong 4Q97 results reported on 2/25 give us confidence that the "core" Intermedia business model remains on track, fueled by continued strong data demand and benefits from the DIGEX acquisition and the continued rollout of switched local services.
2. Recently announced long haul network deal with Williams (1/15/98) enhances Intermedia's position and product offerings within the data market -- on a national scale -- with the addition of significant new data backbone capacity at favorable pricing.
3. RBOC data deals -- one down, a few more to go?: Intermedia's recently announced (1/29/98) alliance with US West for out-of-region frame relay and IP (internet protocol) data services. In accordance with these data deals, Intermedia will provide out-of-region origination and termination of data traffic plus inter-LATA data transport for US West's customers. This may indeed be just the first of a series of such deals with other RBOCs which will provide Intermedia with an important new revenue opportunity. In addition, we believe Intermedia will have the ability to utilize extra capacity within the last mile local loop connections required by the RBOC data deals to provide switched services (local, long distance and data) to other customers in the same building locations.

Revising Forecast: As shown in Table 1 below, we are making the following changes to our revenue and EBITDA forecast for both '98 and '99.

Table 1: Revised Forecast Model

	Revenue		EBITDA	
($ in millions)	**1998E**	**1999E**	**1998E**	**1999E**
Original Forecast	739	1,057	90	168
Y/Y % change		43%		87%
More optimism regarding revenue synergies w/ Shared Tech	11	20	0	21
Impact from RBOC data deals	0	124	0	22
New Forecast	750	1,201	90	211
Y/Y % change		60%		134%

Source: Merrill Lynch estimates

Outer year revenues and EBITDA have also increased with year 2007 revenue increasing by 10% from $4.8 billion to $5.3 billion and EBITDA increasing by 27% from $1.1 billion to $1.4 billion.

Conclusion: We are raising our 12 month private market value-based price objective from $71 to $105 to reflect our new 10 year DCF forecast model. Our new price objective reflects the average between our year-end '98 and year-end '99 private market values using a 15% discount rate, 9.5x terminal EBITDA multiple, and no public to private discount.

Table 2: Intermedia Communications Detailed Financial Forecast

	1997A	1Q98E	2Q98E	3Q98E	4Q98E	1998E	1999E	2000E	2001E	2002E	2003E	2004E	2005E	2006E	2007E
Revenue															
Local Network Svcs	42.0	24.4	29.0	33.9	39.7	127.0	215.0	325.0	475.0	657.9	878.3	1,141.7	1,450.0	1,798.0	2.157.6
Enhanced Data Svcs	57.8	19.0	24.6	31.5	39.9	115.0	279.0	348.8	418.5	489.6	563.1	647.6	738.2	834.2	934.3
Interexchange Svcs	113.2	44.3	59.8	79.0	101.9	285.0	360.0	444.6	533.5	634.9	746.0	857.9	986.6	1,134.6	1,304.7
Internet	28.8	20.1	22.3	25.0	28.5	95.9	210.0	252.0	296.1	340.5	391.6	450.3	506.6	564.9	621.4
Systems integration	6.1	26.0	29.7	33.7	37.8	127.2	137.0	150.0	165.0	180.0	194.4	208.8	219.2	230.2	241.7
Total Revenue	247.9	133.8	165.4	203.1	247.8	750.1	1,201.0	1,520.4	1,888.1	2,302.9	2,773.3	3.306.3	3,900.7	4,561.8	5,259.7
Expense															
Network Ops	164.5	69.0	84.4	101.1	119.0	373.5	609.5	741.4	893.3	1,032.5	1,217.1	1,418.2	1,642.2	1,893.2	2,156.5
Facil admin & maint.	31.7	12.8	12.7	12.0	12.4	49.9	81.7	106.4	132.2	161.2	194.1	231.4	273.0	319.3	368.2
Cost of goods sold	3.0	1.8	2.1	2.5	3.0	9.3	13.9	19.7	28.3	34.5	41.6	49.6	58.5	68.4	78.9
SG&A	98.6	54.8	57.1	58.5	57.0	227.4	285.3	354.1	434.8	575.7	687.8	816.7	959.6	1,122.2	1,288.6
Dep & Amort.	53.6	35.4	38.9	43.7	44.8	162.8	222.2	266.0	323.2	371.3	429.4	482.6	535.7	594.4	649.4
Operating Profit	(103.5)	(40.1)	(29.7)	(14.7)	11.7	(72.8)	(11.6)	32.7	76.3	127.6	203.3	307.8	431.7	564.3	718.1
Interest Expense	(60.7)	(26.4)	(30.7)	(35.5)	(40.3)	(132.9)	(142.1)	(153.6)	(165.6)	(174.1)	(224.1)	(239.1)	(221.3)	(220.5)	(180.0)
Other Income	26.8	4.0	3.0	2.0	1.0	10.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pretax Income	(137.3)	(62.5)	(57.4)	(48.2)	(27.6)	(195.7)	(152.1)	(120.9)	(89.3)	(46.5)	(20.8)	68.7	210.4	343.8	538.1
Net Income	(137.3)	(62.5)	(57.4)	(48.2)	(27.6)	(195.7)	(152.1)	(120.9)	(89.3)	(46.5)	(20.8)	68.7	126.2	206.3	322.9
Prf'd Divs	43.7	17.8	18.3	18.7	19.2	74.0	80.0	88.0	96.8	104.0	105.0	105.0	105.0	105.0	105.0
Net Income - Common	(181.1)	(80.3)	(75.7)	(66.9)	(46.8)	(269.7)	(232.1)	(208.9)	(186.1)	(150.5)	(125.8)	(36.3)	21.2	101.3	217.9
EPS	($10.83)	($4.16)	($3.44)	($2.96)	($1.97)	($12.30)	($10.38)	($9.16)	($8.00)	($6.34)	($5.20)	($1.47)	$0.84	$3.94	$8.31
Shares O/S	16.7	19.3	22.0	22.6	23.8	21.9	22.4	22.8	23.3	23.7	24.2	24.7	25.2	25.7	26.2
EBITDA	(49.9)	(4.6)	9.1	29.0	56.5	90.0	210.6	298.7	399.5	498.9	632.7	790.4	967.4	1,158.7	1,367.5
Cap Exp	272.0	90.0	95.0	95.0	95.0	375.0	475.0	410.0	425.0	425.0	425.0	425.0	425.0	435.0	445.0
Free Cash Flow	(360.7)	(125.8)	(129.8)	(130.8)	(139.1)	(412.9)	(409.9)	(284.9)	(211.1)	(120.2)	(36.4)	106.3	301.0	399.0	585.0
Margins															
Network Ops	66.3%	51.6%	51.0%	49.8%	48.0%	49.8%	50.7%	48.8%	47.3%	44.8%	43.9%	42.9%	42.1%	41.5%	41.0%
Facil admin & maint	12.8%	9.5%	7.7%	5.9%	5.0%	6.6%	6.8%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Cost of goods sold	1.2%	1.3%	1.3%	1.2%	1.2%	1.2%	1.2%	1.3%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
SG&A	39.8%	41.0%	34.5%	28.8%	23.0%	30.3%	23.8%	23.3%	23.0%	25.0%	24.8%	24.7%	24.6%	24.6%	24.5%
Dep & Amort	21.6%	26.5%	23.5%	21.5%	18.1%	21.7%	18.5%	17.5%	17.1%	16.1%	15.5%	14.6%	13.7%	13.0%	12.3%
Operating Profit	NM	NM	NM	NM	NM	NM	NM	2.2%	4.0%	5.5%	7.3%	9.3%	11.1%	12.4%	13.7%
Other Income	10.8%	3.0%	1.8%	1.0%	0.4%	1.3%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Loss	NM	NM	NM	NM	NM	NM	NM	NM	NM	-2.0%	-0.8%	2.1%	3.2%	4.5%	6.1%
EBITDA	-20.1%	-3.5%	5.5%	14.3%	22.8%	12.0%	17.5%	19.6%	21.2%	21.7%	22.8%	23.9%	24.8%	25.4%	26.0%
Y/Y Change															
Local Network Svcs	210.3%	367.8%	243.9%	187.2%	140.4%	202.6%	69.3%	51.2%	46.2%	38.5%	33.5%	30.0%	27.0%	24.0%	20.0%
Enhanced Data Svcs	82.6%	67.8%	94.2%	84.8%	137.5%	98.8%	142.6%	25.0%	20.0%	17.0%	15.0%	15.0%	14.0%	13.0%	12.0%
Interexchange Svcs	112.9%	73.5%	115.9%	185.8%	215.6%	151.8%	26.3%	23.5%	20.0%	19.0%	17.5%	15.0%	15.0%	15.0%	15.0%
Internet	NA	NA	NA	81.1%	90.3%	233.2%	118.9%	20.0%	17.5%	15.0%	15.0%	15.0%	12.5%	11.5%	10.0%
Systems integration	NM	NM	NM	NM	NM	NM	7.7%	9.5%	10.0%	9.1%	8.0%	7.4%	5.0%	5.0%	5.0%
Total Revenue	139.8%	204.4%	230.0%	185.0%	200.1%	202.6%	60.1%	26.6%	24.2%	22.0%	20.4%	19.2%	18.0%	17.0%	15.3%
Expense															
Facil admin. & maint	138.0%	130.1%	126.4%	106.2%	147.0%	127.1%	63.2%	21.6%	20.5%	15.6%	17.9%	16.5%	15.8%	15.3%	13.9%
SG&A	316.4%	126.5%	120.0%	20.0%	20.9%	130.6%	25.5%	24.1%	22.8%	32.4%	19.5%	18.7%	17.5%	17.0%	14.8%
Dep & Amort	-30.9%	39.1%	168.0%	392.5%	522.4%	203.6%	36.5%	19.7%	21.5%	14.9%	15.7%	12.4%	11.0%	11.0%	9.3%
Operating Profit	NM	NM	NM	NM	NM	NM	NM	NM	NM	67.2%	59.3%	51.4%	40.2%	30.7%	27.3%
Interest Expense	72.3%	138.1%	176.2%	100.7%	94.1%	119.1%	6.9%	8.1%	7.8%	5.1%	28.7%	6.7%	-7.4%	-0.4%	-18.4%
Net Income	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	63.4%	56.5%
EPS	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Shares O/S	19.2%	18.4%	33.1%	35.0%	37.8%	31.2%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
EBITDA	NM	NM	NM	NM	NM	NM	134.0%	41.8%	33.7%	24.9%	26.8%	24.9%	22.4%	19.8%	18.0%

Source: Merrill Lynch estimates

9 February 1998

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RCN Corporation

Triple Play Residential CLEC: 3 Revenue Streams Yet Only 1 Construction Effort

ACCUMULATE

Reason for Report: Initiating Coverage

Long Term BUY

Price: $44

Estimates (Dec)	1997E	1998E	1999E
EPS:	d$2.50	d$5.81	d$7.45
P/E:	NM	NM	NM
EPS Change (YoY):		NM	NM
Cash Flow/Share:	d$0.59	d$3.71	d$4.38
Price/Cash Flow:	NM	NM	NM
Dividend Rate:	Nil	Nil	Nil
Dividend Yield:	Nil	Nil	Nil

Opinion & Financial Data

Investment Opinion:	D-2-1-9
Mkt. Value / Shares Outstanding (mn):	$1,223./27.8
Book Value/Share (Nov-97):	$13.46
Price/Book Ratio:	3.3x
LT Liability % of Capital:	58%
Est. 5 Year EPS Growth:	NM

Stock Data

Range (from 9/19/97):	$44 3/4-24 7/8
Symbol / Exchange:	RCNC/OTC
Options:	PSE
Institutional Ownership-Spectrum:	NA

ML Industry Weightings & Ratings**

Strategy: Weighting Rel. to Mkt.:		
Income:	Overweight	(07-Mar-95)
Growth:	Underweight	(07-Mar-95)
Income & Growth:	Overweight	(07-Mar-95)
Capital Appreciation:	Overweight	(16-Jan-96)
Market Analysis: Technical Rating:	Above Average	(24-Dec-96)

**The views expressed are those of the macro department and do not necessarily coincide with those of the Fundamental analyst.
For full investment opinion definitions, see footnotes.

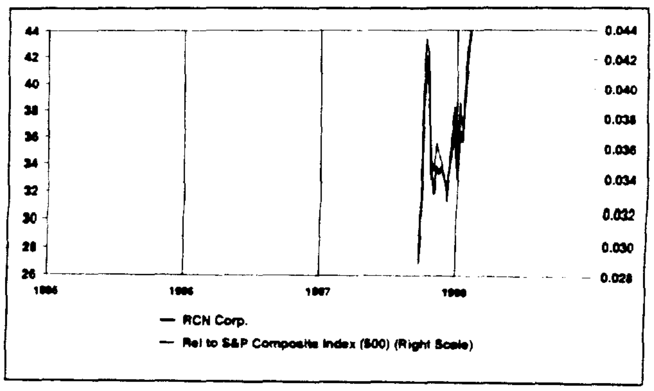
Investment Highlights:

- **Initiating coverage of RCN Corporation (RCN) with an intermediate term Accumulate and long term Buy opinion (D-2-1-9).**
- **Our 12-18 month price obj. of $70, 59% upside from current levels, is based on a sum of the parts private market valuation including RCN's US residential CLEC (RCN Telecom, $50/share), US cable props. ($16/share), & 40% share of a Mexican CLEC ($2/share). We think RCN will be attractive to the larger ind. players as vertical integration & consolidation continues.**

Fundamental Highlights:

- **RCN Telecom, a unit of RCN, is a facilities-based CLEC targeting high density residential areas within the NE corridor which we est. to have 25% of US access lines and 28% of US local revenues. Strong topline growth expected due to 3 fold rev. oppt'y (local and long distance voice, cable & internet) but just 1 construction effort.**
- **We est. '97 revs. of $124MM, growing by 74% to $216MM in '98, reaching $3.8B by '07. We est. '98 EBITDA losses of $32MM, with breakeven by 2H99, and '07 EBITDA margins of 41%.**
- **RCN Telecom's network is comprised of fiber to the node and "Siamese" copper and coaxial cable from the node to the home allowing scale economies and a triple revenue opp'ty.**

Stock Performance



Merrill Lynch & Co.
Global Securities Research & Economics Group
Global Fundamental Equity Research Department

435200/435197/435100/435000

RC#20104015

We are initiating coverage of RCN Corporation with an Accumulate/Buy rating. Our price objective is $70, or 59% upside. RCN's key value driver is its residential CLEC (competitive local exchange carrier) subsidiary, RCN Telecom, which is well positioned to capture a valuable slice of the residential telephony and cable TV (cable) market through product offerings including telephony, cable and internet services. RCN will focus its activities in high density urban and suburban areas with special emphasis placed on apartments or multiple dwelling units (MDUs). Service will be provided over RCN Telecom's own advanced fiber local network with Siamese coaxial cable (for cable and high speed internet) and copper wires (for voice).

Company Description: RCN Corp. has three separate entities: 1) RCN Telecom, a residential CLEC providing voice, cable and internet services to highly concentrated residential markets in the Northeast corridor including: the greater NY metropolitan area, Boston and Washington DC; 2) independent cable properties with 184,000 subscribers in NY, NJ, and PA; and, 3) 40% ownership of Megacable, the first Mexican CLEC venture to compete against Telmex, the incumbent local provider in Mexico.

1) **Residential CLEC (RCN Telecom):** The Princeton, NJ based company's RCN Telecom division is currently the sole facilities based competitor to the ILEC (incumbent local exchange carrier) concentrating on residential customers in its target markets. In order to maximize returns, RCN Telecom is focusing its network build in those neighborhoods with the highest density of single family homes and multiple dwelling units. Within the NE corridor, we estimate that there are approximately 25MM households. Of the homes and MDUs in the NE corridor, RCN has already built local facilities capable of serving 42,000. RCN's early success rate within the highest density MDUs has been very impressive with penetration rates running over 30% for cable and 20% for voice in the apartment buildings to which RCN has marketed.

   Rather than wait until a network is in place before selling services into a market, RCN Telecom also is entering into new markets through resale of the ILEC's local services and provision of dial-up internet services through RCN's recently acquired internet services providers (ISPs). Erol's, purchased for $85MM with $35MM in revenue and 292,000 dial up subscribers and Ultranet, purchased for $27MM with $9MM in revenue and over 30,000 dial up subscribers. These deals bring with them: 1) extensive internet backbone network infrastructure; 2) an in-place ISP sales and customer support infrastructure; and, 3) over 320,000 existing customers who now will be offered RCN's voice services given a high degree of geographic market overlap. These customers will be migrated onto RCN Telecom's facilities once built and marketed cable and higher speed internet as additional products.

   RCN Telecom has established joint ventures with utility companies and WorldCom for both local dark fiber leases and joint local construction providing capital expenditure savings and right of ways, speed to market, and the ability to leverage existing customer relationships. Through these partnerships and joint builds, RCN Telecom has a 400 route mile network with 2 local telephone switches (NYC and Boston) and connections to 500 buildings.

2) **US Cable Properties:** In addition to developing a residentially-based CLEC, RCN also derives revenues from independent cable properties located in NY, NJ, and PA. These facilities provide service to an estimated 184,000 subscribers (in addition to an approx. 45,000 wireless cable subscribers in NYC) with a penetration rate (excluding wireless) of 63% of units passed, in line with industry averages. RCN has extensive experience entering the market as a competitive cable company (in competition with the incumbent) as a result of its Allentown, PA property which was the first cable overbuild in the US and in which RCN now has an approximate 50% market share. Most of these properties will eventually be upgraded by RCN Telecom and will also be eligible for voice and high speed internet services.

3) **Megacable (Mexican CLEC):** RCN has a 40% ownership in Megacable, Mexico's second-largest cable provider with CLEC status in Mexico City, Monterey, and Guadalajara. Megacable has begun to offer internet service through cable modems in Guadalajara and plans to begin providing telephony services in Mexico City in 1Q98. Through Megacable, RCN will be offering the first local telephone alternative to Telmex, the formerly state-owned telephone monopoly.

RCN Telecom Value Drivers

Value Driver #1: Selling a bundled telecom package: RCN's strategy is to offer a competitively priced bundled service package including local and long distance voice, cable, and internet services — all on one bill — to residential customers with service to be provided via a state-of-the-art network with facilities construction concentrated in high density areas. Our forecast assumes that by '07: 1) RCN will have built facilities capable of furnishing its bundled service package to 33% of homes within its target markets; 2) on-net penetration rates (of built-to homes) will reach 25% for both voice and cable and 15% for internet; 3) the "average" customer will subscribe to 2.1 services from RCN; and, 4) total penetration of homes (adjusted for homes taking more than one service) will reach 11.3% (see Table 1 below).

An important side benefit from this "bundled" strategy is that the company should enjoy significant marketing, sales force and network efficiencies. As RCN will clearly be one of the first to market with such a comprehensive group of services, another key advantage should be realized — namely reduced customer churn. Nevertheless, we forecast annual customer churn rates of 15% in '98, growing to 18% in '99 through '07.

Voice services: RCN Telecom offers voice services provided over its own network and through resale of ILEC facilities prior to the building of facilities. We forecast RCN Telecom local sales, including both facilities-based and resale will penetrate 0.2% of homes in its markets in '98, 0.8% in '99, 1.8% in '00, increasing to 9.7% by '07. Of the customers subscribing to local service, we predict that 50% will also purchase RCN's long distance service in '98 increasing to 75% by '07. We forecast that per line revenues for local voice service will be $31 in '98 or an approx. 15-20% discount vs. ILEC pricing. Over the forecast period, we estimate that this discount will narrow to just 5% by '07. Long distance revenues per line are forecast to decline by 0.5% annually over the forecast period from the $20 level in '98. We also estimate revenues from small business customers located adjacent to RCN Telecom's network equal to 3% of residential voice revenues in '98, increasing to 10% from '01 to '07.

Cable services: RCN Telecom offers basic and premium cable services to customers over its advanced fiber network and existing wireless and coaxial networks. We estimate RCN Telecom cable sales will penetrate 0.1% of homes in its markets in '98, 0.4% in '99, 0.9% in '00, increasing to 8.2% by '07. We forecast that per subscriber monthly revenue for basic and premium services will average $36 in '98 (a 20% discount to average industry rates) increasing by 2% annually to $43 by '07.

Internet services: RCN Telecom offers its customers a choice between high speed internet access through cable modems for which it is charging $45 per mo. and lower cost dial-up service for $20 per mo. The high speed internet service will be delivered via cable modems and is up to 200x faster than dial up. We estimate RCN Telecom internet sales will penetrate 0.1% of homes in its markets in '98, 0.3% in '99, growing to 5.5% by '07.

Value Driver #2: Targeting high density, residential customers in the greater NY, Boston and Washington DC areas. RCN Telecom is targeting the greater NY, Boston, and DC metropolitan areas within the NE corridor, a corridor we estimate includes 25% of total homes in the US (25 million homes and 28% of total US local telecom revenues). Of the 25 million addressable homes within the NE corridor, RCN is "cherry picking" via a focused network deployment strategy and target marketing oriented towards the high density (with a concentration on MDUs), high usage neighborhoods. Marketing of RCN's services in high density areas is central to the company's economic model of selling multiple on-net services. To this point, we note the high density levels (measured in homes passed per linear mile) in key RCN Telecom markets such as Manhattan of 3,000, Boston of 1,000 and other markets targeted for construction by '00 averaging well over 150. These density statistics contrast sharply with national averages of 40-42 homes per passed mile (from cable industry statistics) and serve to highlight RCN's advantage.

Value Driver #3: Form strategic alliances to speed network development and customer acquisition. RCN Telecom has formed strategic partnerships with the main utility companies for both Boston and Washington DC and with WorldCom for access to local networks in NYC and Boston. Through the joint ventures, RCN Telecom has access to over 550 route miles of fiber and potential access (via joint marketing initiatives etc.) to 1.3 million utility customers. The joint venture partners should contribute approx. $150 million in capital over the next 3 years and will allow RCN Telecom to jointly pursue fiber builds thereby lowering network deployment costs.

Value Driver #4: Strong and credible management team: RCN Corps's executive team is led by Chairman and CEO, David McCourt, a current Director of WorldCom, past director of MFS and early CLEC industry pioneer. Also supporting RCN Corp.'s development efforts is its majority shareholder, Peter Kiewit Sons' Inc. (PKS), the founder of MFS Commumications. Through the experience with MFS, both Mr. McCourt and PKS are skilled in constructing facilities, targeting market share gains, and obtaining high values for shareholders upon sale of the company as evidenced by MFS' sale to WorldCom in '96 for $13B.

Financial Projections: We are estimating that RCN Telecom will take a combined 11.3% share of the total homes resident within its target markets by '07.

Table 1: Addressable Market Calculation

(in millions)		1998E	2001E	2004E	2007E
A	Total Homes In Market	25.3	26.0	26.8	27.6
B	Homes Passed By Network	0.3	2.5	5.8	9.1
C (B/A)	% Homes Built To	1.2%	9.9%	21.7%	32.9%
D (Ax3)	Potential Total Srvc Connects*	75.8	78.0	80.4	82.8
E (Bx3)	Potential On-Net Srvc Connects*	0.9	7.7	17.5	27.2
	Penetration of On-Net Service Connects				
F	Voice (on-net only)	10%	19%	24%	25%
G	Cable	10%	19%	24%	25%
H	Internet (on-net only)	4%	11%	14%	15%
	Resale Services As % of Total Connects				
I	Resale Voice	50%	45%	30%	15%
J	Resale Internet	50%	30%	16%	10%
	Implied Penetration of Total Homes**				
K (BxF/(1-I))/A	Voice (resale and on-net)	0.2%	2.8%	7.4%	9.7%
L (BxG)/A	Cable	0.1%	1.8%	5.2%	8.2%
M (BxH/(1-J))/A	Internet (resale and on-net)	0.1%	1.5%	3.6%	5.5%
N (assmpt.)	Avg. Connects Per Customer***	2.02	2.06	2.07	2.08
O (K+L+M)/N	Implied Penetration of Total Homes	0.2%	3.0%	7.8%	11.3%

* Assumes 3 potential services - voice, Cable, and internet

** Assumes churn rates for connections of 0% for '98, 15% for '01, and 18% for '04 and '07

*** Average connections per customer assumes 2 connections each (voice and cable) for all customers plus a fractional number of internet connections based upon penetration rates

Source: Merrill Lynch estimates

Table 2 below details our financial forecast for RCN Corp. We forecast revenues for RCN Corp. of $124 million in '97, increasing by 74% in '98 to $216 million, reaching $3.8 billion by '07, with a 10 year CAGR of 41%. We estimate that RCN Telecom comprises 13% of total revenues in '98, increasing to 96% by '07.

We forecast RCN Corp. EBITDA losses of $36 million in '98, with EBITDA approx. breakeven in 2H99, reaching $1.6 billion or 41% of revenues by '07. Capital expenditures are estimated at $285 million for '98 with spending expected to ramp up to the $1 billion level by '01 and then holding that approximate pace for the balance of the forecast period. Capital expenditures are comprised of two components: 1) Fixed network deployment which we estimate at $900 per home passed in '98 dropping to $780 by '07 or a 1.5% average annual decline which we expect to be fueled by modest equipment purchasing efficiencies; and, 2) Variable costs to hook up a customer's service which we estimate at $250 per connection in '98, peaking at $300/connection in '00 with the introduction of high speed (and costly) internet modems and then declining 2.6% annually through '07 to $260/connection, aided by slight increases in average connections/home and equipment purchasing efficiencies.

Table 2: RCN Corp. Financial Forecast

	1998	1999	2002	2004	2007
Revenues	215.9	336.9	1,377.2	2,327.6	3,795.1
EBITDA	(35.7)	(3.2)	404.3	842.2	1,560.5
Margin	NM	NM	29.4%	36.2%	41.1%
Cap Exp	285.4	426.6	1,096.0	1,050.7	938.7
Free Cash Flow	(395.1)	(560.3)	(1,128.6)	(878.1)	(328.0)

Source: Merrill Lynch estimates

12-18 Month PMV Price Objective of $70: Our price objective (see Tables 3 & 4 below for derivation) is based on a sum of the parts valuation including: a) our 10-year DCF model for RCN Telecom, using a 15% discount rate, 10.0x terminal EBITDA multiple, no public to private discount and a 20% discount to reflect minority ownership in RCN Telecom by its partners; b) 11.0x '99 EBITDA of $43.2MM for the independent cable properties (our estimate of current private market valuation levels), and; c) 11.0x '99 EBITDA of $13MM (adjusted to account for 40% ownership) for Megacable, the Mexico CLEC venture. We use a private market value based price objective because we believe that RCN, along with many other CLECs, likely will become part of larger vertically integrated telecom companies over time as all the larger players move to offer an array of voice, internet, and entertainment services.

Table 3: Valuation of RCN's Largest Subsidiary: RCN Telecom

	YE '98	YE '99	YE '00
Discount rate	*15%*	*15%*	*15%*
Terminal Multiple	*10.0x*	*10.0x*	*10.0x*
	'99-'07	'00-'07	'01-'07
PV of unlevered FCF	($2,030)	($1,911)	($1,519)
PV of term value	4,277	4,919	5,657
JV Adjustment	80%	80%	80%
Enterprise Value	1,787	2,392	3,338
Net Debt	265	686	1,420
Private Market Value - Equity	1,522	1,705	1,917
Shares O/S - fully diluted	30.2	30.9	31.5
Private Mkt Value Per share	**$50.31**	**$55.28**	**$60.93**

Source: Merrill Lynch estimates

Table 4: Sum of the Parts Valuation - RCN Corp. Private Market Value

Per Share Value	YE '98	YE '99	YE '00
RCN Telecom	$50.31	$55.28	$60.93
Independent Cable	$15.70	$15.88	$15.99
Megacable (Mexican CLEC)	$1.89	$2.14	$2.24
Combined Per Share Valuation	**$67.90**	**$73.30**	**$79.16**

Source: Merrill Lynch estimates

Merrill Lynch is currently acting as a financial advisor and has rendered a fairness opinion to RCN Corporation in connection with its proposed acquisition of Erol's, which was announced on January 21, 1998. RCN Corporation has agreed to pay a fee to Merrill Lynch for its financial advisory services, a significant portion of which is contingent upon the consummation of the proposed transaction.

This research report is not intended to (1) provide voting advice, (2) serve as an endorsement of the proposed transaction, or (3) result in the procurement, withholding, or revocation of a proxy.

23 April 1998

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Teligent Inc.

Recent Weakness Creates Opportunity; Network Roll Out On Track

ACCUMULATE*

Reason for Report: Company Update

Long Term BUY

Price: $30

Estimates (Dec)	1996A	1997A	1998E
EPS:	NA	NM	d$3.47
P/E:	NM	NM	NM
EPS Change (YoY):		NM	NM
Consensus EPS:		d$2.94	d$3.55
(First Call: 12-Mar-98)			
Cash Flow/Share:	NA	NM	d$3.29
Price/Cash Flow:	NM	NM	NM
Dividend Rate:	Nil	Nil	Nil
Dividend Yield:	Nil	Nil	Nil

Opinion & Financial Data

Investment Opinion:	D-2-1-9
Mkt. Value / Shares Outstanding (mn):	$1,620.0 / 54
Price/Book Ratio:	NM
LT Liability % of Capital:	57.0%

Stock Data

52-Week Range:	$35 3/8-$22 1/4
Symbol / Exchange:	TGNT / OTC
Options:	None
Institutional Ownership-Spectrum:	21.3%
Brokers Covering (First Call):	3

ML Industry Weightings & Ratings**

Strategy: Weighting Rel. to Mkt.:		
Income:	Overweight	(07-Mar-95)
Growth:	Underweight	(07-Mar-95)
Income & Growth:	Overweight	(07-Mar-95)
Capital Appreciation:	Overweight	(16-Jan-96)
Market Analysis: Technical Rating:	Above Average	(24-Dec-96)

*Intermediate term opinion last changed on 18-Dec-97.
**The views expressed are those of the macro department and do not necessarily coincide with those of the Fundamental analyst.
For full investment opinion definitions, see footnotes.

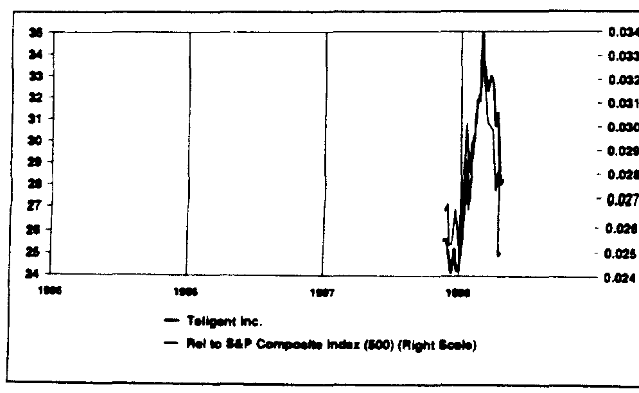
Investment Highlights:

- **Reiterating our intermediate term Accumulate and long term Buy opinion on Teligent.**
- **12-18 month private market value-based price objective remains at $37 or 23% upside from current prices. Our private market value estimate is based on our 10 year discounted cash flow (DCF) model, a 15% discount rate and 9.0 multiple on terminal year EBITDA, and no public market discount.**

Fundamental Highlights:

- **Network deployment efforts remain on track for 3 commercial networks in service by mid-year, with a total of 10 by year-end '98 and an additional 20 by year-end '99.**
- **Recent company announcements concerning progress towards commercial service rollout bolsters confidence that deployment schedule is on track.**

Stock Performance



Merrill Lynch & Co.
Global Securities Research & Economics Group
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